

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF ASH AVENUE SANITARY)
SEWER COMPANY, INC., FOR AN ADJUSTMENT) CASE NO. 9208
OF RATES PURSUANT TO THE ALTERNATIVE)
PROCEDURE FOR SMALL UTILITIES)

O R D E R

On November 5, 1984, Ash Avenue Sanitary Sewer Company, Inc., ("Ash Avenue") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

There were no intervenors in this matter, and all information requested by the Commission has been submitted.

Ash Avenue requested a rate which would produce an annual increase of \$42,534 to its present gross revenues. In this Order, the Commission has allowed a rate to produce an increase of \$25,435.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rate, the 12-month period ending December 31, 1983, has been accepted as the test period.

REVENUES AND EXPENSES

Ash Avenue showed a net loss on its books for the test period of \$28,844. Ash Avenue proposed several pro forma adjustments to its test period operating revenues and expenses to more accurately reflect current operating conditions. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Management Fee

During the test period, Jerry Osborne, Owner and Manager of Ash Avenue, was paid \$6,000 which represents compensation for management services performed by him. In its response to the Commission's request for additional information received on December 21, 1984, Ash Avenue stated that the fee included the use of Mr. Osborne's automobile, phone, office and secretarial personnel as well as his professional services. All routine maintenance operations are performed by Andriot-Davidson's Service Company, Inc., ("Andriot-Davidson") and the billing and collection is performed by the Louisville Water Company ("LWC"). Thus, the functions performed by Mr. Osborne are limited to part-time administrative duties. In this instance, the Commission has allowed the following annual fees which it considers to be

reasonable compensation based on fees paid for these services by similarly-sized utilities operating under the jurisdiction of the Commission:

Management Fee	\$ 1,800
Bookkeeper	1,200
Office Rent	<u>600</u>
Total	<u>\$ 3,600</u>

Therefore, the Commission has reduced the total management charge of \$6,000 by \$2,400 for rate-making purposes.

Purchased Power Expense

Ash Avenue recorded purchased power expense for the test period of \$9,872 to which it made a pro forma adjustment of \$4,528 based on increased usage of electricity and an estimated rate increase. In its response to the Commission's request for additional information received on December 21, 1984, Ash Avenue furnished copies of its electric bills for the years 1983 and 1984 with a summary for each year. The Commission is of the opinion that the only known and measurable increase to the test period was the increase in usage as reflected by the 1984 figures. The Commission rejects Ash Avenue's estimated rate increase. Actual billing for 1984 was \$11,820, which the Commission finds reasonable. Therefore, the Commission has reduced the projected purchased power expense of \$14,400 of Ash Avenue by \$2,580.

Routine Maintenance Service Fee

Ash Avenue reported Routine Maintenance Service Fees of \$3,300 paid during the test period to Andriot-Davidson, to which

it made a pro forma adjustment of \$600 for the purpose of providing for an expected increase of the fee from Andriot-Davidson. In response to the Commission's request for additional information dated November 30, 1984, Ash Avenue furnished the Commission a copy of the contracts negotiated with Andriot-Davidson for the year 1984 at \$275 per month and the year 1985 at \$315 per month. Therefore, the Commission has made an adjustment to reduce Ash Avenue's adjusted test year expense of \$3,900 by \$120 which reflects a routine maintenance service fee of \$315 per month, or \$3,780 annually. Although the Commission has accepted this increase in Ash Avenue's routine maintenance fee since it is at arms-length, the Commission would remind Ash Avenue of its obligation to negotiate and obtain the least costly alternative for itself and its ratepayers.

Collection Expense

The collection expense is directly related to the amount of revenue that Ash Avenue collects via the formula used by the LWC to calculate the collection charge.¹ Therefore, the Commission has modified this calculation to include the increased rate allowed herein. The Commission is also using the most recent collection fee charged by the LWC effective May 1, 1984, which results in an annual collection expense of \$2,206, a decrease of \$188.

¹ $\$1.80 \times \frac{\text{Sewer Charge}}{\text{Water Charge} + \text{Sewer Charge}} \times \text{No. of Customers} \times 6.$

Office Supplies and Other Expenses

During the test period Ash Avenue booked \$2,292 which was charged to office supplies and other expenses. An analysis of the individual invoices showed that during the test period Ash Avenue purchased liquid chlorine from Ulrich Chemical, Inc., as evidenced by its Invoice No. 5085882 dated August 30, 1983, in the amount of \$351 which included \$200 for drum deposits. Drum deposits are refundable and are not an operating expense. Moreover, a plant addition of \$424 was made to the sewer system for the purpose of rebuilding the Number 2 sewage pump as evidenced by Andriot-Davidson's Invoice No. 324-1 dated March 24, 1983. This capital item was inappropriately included in test year expenses. Allowable depreciation expense will be discussed later in this Order. Therefore, test period expenses related to office supplies and other expense have been reduced by a total of \$624 to \$1,668.

Outside Services Employed

Ash Avenue proposed an adjusted amount representing outside services employed for the test period of \$1,000, which was composed of a 3-year amortization of rate case expense at \$500 per year and the preparation of the annual tax return and Public Service Commission Annual Report filing at \$500, these services being rendered by the firm of Compton, Kottle & Associates. The Commission requested an analysis of the total rate case expense of \$1,500. During the examination of this document, the Commission found that Ash Avenue had estimated hearing and follow-up time for the accountant of \$209 and the attorney of \$120. Since this rate application was filed pursuant to 807 KAR 5:076 which eliminates

the need for a formal hearing, the Commission has reduced the portion of outside services employed by \$110² representing amortization of rate case expense to a total of \$890 for rate-making purposes.

Maintenance of General Plant

Ash Avenue's recorded expense for the maintenance of its general plant during the test period was \$996, to which it made a pro forma adjustment of \$424. This pro forma adjustment represented Ash Avenue's projection of additional expenses during the test period. It is the policy of this Commission to allow only known and measurable increases to actual test year expenses which can be substantiated by appropriate documentation. Therefore, it is the Commission's finding that Ash Avenue has not met its burden of proof on this issue and the Commission has, therefore, disallowed the pro forma adjustment of \$424.

Depreciation Expense

At the end of the test period, Ash Avenue had recorded depreciation expense of \$16,656. Ash Avenue made a pro forma adjustment of \$1,327 due to the replacement of two pumps in the lift station at a cost of \$6,635 with a useful life of 5 years. Moreover, the Commission, in its disallowance of a capital item of \$424 included in the cost of office supplies and other expense as discussed earlier, has allowed a pro forma adjustment of \$141 computed on the basis of a 3-year life of the property more appropriately included in Account No. 373, Treatment and Disposal

² \$209 + \$120 = \$329 ÷ 3 = \$110.

Equipment. The Commission has also reduced depreciation expense by \$14,768 in accordance with its established precedent for rate-making that depreciation should be computed on the basis of original cost of the plant in service less contributions in aid of construction. The Commission is of the opinion that it is unfair to require ratepayers to provide recovery on that portion of the plant provided free of cost. Thus, the Commission finds that the appropriate adjusted test period depreciation expense is \$3,356.³

Therefore, Ash Avenue's adjusted operations at the end of the test period are as follows:

	<u>Ash Avenue Adjusted</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 33,282	\$	\$ 33,282
Operating Expenses	51,461	(21,067)	30,394
Net Operating Income	<u>\$ (18,179)</u>	<u>\$ 21,067</u>	<u>\$ 2,888</u>
Interest Income	713		713
Interest Expense	<u>23,860</u>		<u>23,860</u>
Net Income	<u><u>\$ (41,326)</u></u>	<u><u>\$ 21,067</u></u>	<u><u>\$ (20,259)</u></u>

REVENUE REQUIREMENTS

The Commission is of the opinion that Ash Avenue's adjusted operating loss is unfair, unjust and unreasonable. The Commission

³ Depreciation Expense, per books at 12/31/83	\$ 16,656
Add: Depreciation expense on 2 new pumps installed in life station of \$6,635 ÷ 5 years-	1,327
Depreciation expense on capital item transferred from Office Supplies & Other Expense \$424 ÷ 3 yrs.	141
Deduct: Depreciation expense on Contributions In Aid of Construction of \$273,574 X .05398 (\$16,656 ÷ \$308,556 = composite depreciation rate of .05398)	<u>(14,768)</u>
Total allowable depreciation expense	<u><u>\$ 3,356</u></u>

is further of the opinion that an operating ratio of 88 percent is fair, just and reasonable in that it will allow Ash Avenue to meet its operating expenses, service its debt and provide a reasonable return to its stockholders. Therefore, the Commission finds that Ash Avenue should be permitted to increase its rate to produce total annual revenues of \$58,717,⁴ which includes federal and state income taxes of \$908. This results in an annual increase in revenue to Ash Avenue of \$25,435.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rate proposed by Ash Avenue would produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

2. The rate in Appendix A is the fair, just and reasonable rate to charge for sewer services rendered to Ash Avenue's customers and should produce annual revenues of approximately \$58,717.

IT IS THEREFORE ORDERED that the rate in Appendix A be and it hereby is the fair, just and reasonable rate of Ash Avenue for sewer services rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Ash Avenue be and it hereby is denied.

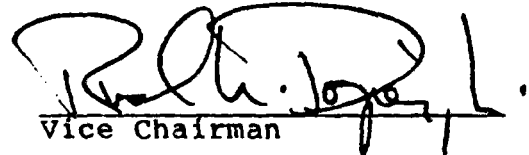
⁴ $(\$30,394 + \$908) \div .88 = \$35,570 - \$713 + \$23,860 = \$58,717.$

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Ash Avenue shall file with this Commission its tariff sheets setting forth the rate approved herein and a copy of its rules and regulations for providing sewer services.

Done at Frankfort, Kentucky, this 18th day of April, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9209 DATED APRIL 18, 1985

The following rates and charges are prescribed for the customers receiving sewer service from Ash Avenue Sanitary Sewer Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Customer Class

Rate

Residential

\$ 16.31